DETERMINATION > FINANCIAL ARRANGEMENTS > GENERAL

Forward Contracts for Foreign Exchange and Commodities

Issued: 4 May 1989

G14

This Determination may be cited as "Determination G14: Forward Contracts for Foreign Exchange and Commodities".

1 Explanation (which does not form part of the determination)

1. Income or expenditure under forward contracts can be calculated on the mark to market method under section 64C(4) of the Act by traders (or by any person if the contract is for foreign exchange). This determination provides a method of accruing for taxation purposes the income or expenditure under a forward contract where section 64C(4) cannot be applied, or where the person chooses not to apply section 64C(4).

2. For example, a foreign exchange forward contract is a contract to buy or sell specified amounts of a currency at a future date at a price fixed (in terms of another currency) at the time the contract is entered into. Each party contracts to simultaneously sell one currency and purchase another currency. This means that the same forward contract can be viewed as either the sale of one currency or the purchase of the other currency. To establish which transaction is occurring for tax purposes, a person must identify one of the currencies as a "base currency" and the contract will be viewed as the sale or purchase of the "non-base" currency as appropriate. For example, a person who sells NZD forward against purchase of USD can view the contract as either—

   (a) The forward sale of NZD, if the person's base currency is USD, or

   (b) The forward purchase of USD, if the person's base currency is NZD.

   The choice of base currency merely fixes the direction of the cash flows under the forward contract; it does not affect the amounts reported for tax purposes although it may affect the incidence.

   Each party to a forward contract is both a vendor and a purchaser. Since each party is a vendor in relation to the forward contract, each is deemed to be a holder under the definition of "holder" in section 64B(1) of the Act.

3. This determination also applies to swap contracts for fixed amounts, to be exchanged at a single fixed date.

4. Under a forward contract, the currency to be purchased is a "deferred asset" of the person and the currency to be sold is a "deferred liability" of the person. This does not depend on which currency is chosen as the base currency. In the example first given, the forward sale of NZD is a deferred liability and the forward purchase of USD is a deferred asset, irrespective of which base currency is chosen. This is because the forward contract can be regarded as equivalent to—

   (a) borrowing in NZD, the currency being sold (creating a "liability"),

(b) converting the proceeds to USD at the spot rate, and

(c) lending in USD, the currency being bought (creating an "asset").

However, if the sale and purchase currencies are interchanged, or the position of the other party to the forward contract is considered, then the asset and liability currencies are also interchanged.

5. The total income derived or expenditure incurred under the forward contract (expressed in the base currency) is the difference between the values of the non-base currency at—

(a) The spot rate when the forward contract is delivered; and

(b) The forward rate at which the contract was entered into.

Because the delivery spot rate will not be known until the actual delivery date of the contract, it is necessary to provide an accrual method during the course of the contract.

6. Any difference between the forward rate and the spot rate is a reflection of different interest rates in the two currencies. If the spot rate when the contract is delivered has become exactly equal to the forward rate under the contract, then this interest differential will have been exactly offset by the changes in the capital values of the deferred asset and liability.

The accrual method used in this determination follows this expected change in spot rates:

(a) The initial premium or discount, between the spot rate and the forward rate, is accrued over the term of the contract, and

(b) The contract is revalued to current spot rates each year.

7. The rationale for determining "which way round" these items should be is as follows:—

(a) *Accrual of premium or discount*

(i) At the date the contract is issued the value of the non-base currency is converted into the base currency at the then spot rate.

(ii) If the non-base currency has been bought then it comprises a deferred asset. This asset is being purchased at a discount where the spot value is greater than the forward value, and at a premium where the spot value is less than the forward value. Accrual of a discount is income, and accrual of a premium is expenditure.

(iii) If the non-base currency has been sold then it comprises a deferred liability. This liability is being sold at a premium where the spot value is greater than the forward value, and at a discount where the spot value is less than the forward value. Accrual of a discount is expenditure, and accrual of a premium is income.

(iv) This can be presented in table form as follows:—

Non-base Currency	Base Currency	Deferred	Change in Accrual during year* (a – b) positive	Change in Accrual during year* (a – b) negative
Bought	Vendor	Asset	Premium = Expend.	Discount = Income
Sold	Purchaser	Liability	Discount = Income	Premium = Expend

* This is the amount (a − b) in clause 7(1) where—

a = accrual at year end

b = accrual at year beginning,

of the premium or discount.

This table can be summarised by saying that for a vendor of the base currency, a negative amount of (a − b) is income, and a positive amount is expenditure, and conversely for a purchaser.

(b) *Spot rates*

(i) At each balance date the value of the non-base currency is converted into the base currency at the then spot rate.

(ii) If the non-base currency has been bought then it comprises a deferred asset. In this case an increase in value of the non-base currency is income, and a decrease is expenditure.

(iii) If the non-base currency has been sold then it comprises a deferred liability. In this case an increase in the value of the non-base currency is expenditure, and a decrease is income.

(iv) This can be presented in table form as follows:—

Non-base Currency	Base Currency	Deferred	Change in spot value during year* Increase (c – d) positive	Change in spot value during year* Decrease (c – d) negative
Bought	Vendor	Asset	Income	Expenditure
Sold	Purchaser	Liability	Expenditure	Income

* This is the amount (c − d) in clause 7(1) where—

c = spot value at year end

d = spot value at year beginning

This table can be summarised by saying that for a vendor of the base currency, a positive amount of (c − d) is income, and a negative amount is expenditure, and conversely for a purchaser.

(c) Since the wording at the end of item (a)(iv) is the same as item (b)(iv) except for the words "positive" and "negative", by changing the sign of the latter, the results can be combined as—

(a - b) - (c - d)

with the conclusion that, for a vendor of the base currency, where this amount is negative it is income and where this amount is positive it is expenditure, and conversely for a purchaser.

8. In summary, the accrual method is as follows:

(a) *Accrual of premium or discount*

The difference between the value of the non-base currency calculated using—

(i) the spot rate, and

(ii) the contract rate, as at the contract entry or acquisition date, represents the premium or discount in the base currency. This premium or discount is accrued over the term of the contract using Method A or B of Determination G10: Present Value Calculation Methods (or any other method producing substantially similar results), as follows:—

(A) The yield to maturity rate is calculated as at the contract entry or acquisition date. This is the rate at which:

the present value of the value of the non-base currency calculated using the contract rate

is equal to—

the value of the non-base currency calculated using the spot rate.

The yield to maturity rate will be positive if the value at the contract rate exceeds the value at the spot rate, and conversely.

(B) At each balance date the present value of the non-base currency calculated using the contract rate is determined at the yield to maturity rate. The change in present value since the previous balance date (or contract entry or acquisition date, if later) is brought to account as income or expenditure.

All amounts are expressed in the base currency.

(b) *Accrual of change in value at spot rates* At each balance date, the non-base currency is revalued into the base currency using the spot rate. The change in value since the previous balance date (or contract entry or acquisition date, if later) is brought to account as income or expenditure.

(c) *Total*

The accrual income or expenditure in any income year is—

(i) the change in accrual premium or discount, less

(ii) the change in value at spot rates,

over the year, calculated in the base currency. The exact details of allocation to income and expenditure are covered in clause 1(7). Where necessary, the accrual income or expenditure is then converted into New Zealand dollars at the spot price as at the end of the income year.

(d) *Base Price Adjustment.*

In the year the financial arrangement is redeemed or disposed of, a base price adjustment is calculated in New Zealand dollars.

9. Where the contract has a term of less than a year, it is not necessary to go through the process in full detail. Exactly equivalent results will be obtained by calculating the present value at the balance date as the accrued premium or discount on an actual days/actual days basis, to give "a" in the formula shown in clause 7(1).

10. Note that this determination does not apply to agreements for the sale and purchase of property as defined in Section 64B(1) of the Act, and that for this purpose, property includes trading stock.

2 Reference

This determination is made pursuant to section 64E(1)(b) of the Income Tax Act 1976.

3 Scope of Determination

1. This determination shall apply where it is necessary to calculate the income deemed to be derived or the expenditure deemed to be incurred by a person in respect of a forward contract for foreign exchange and commodities, to which the person becomes a party after the day on which this determination is signed.

2. This determination shall not apply to any—

   (a) Futures contract:

   (b) Swap contract, other than a swap contract involving—

      (i) A spot exchange at the current market spot rate; and

      (ii) A future exchange of fixed amounts at a single fixed date:

   (c) Option contract:

   (d) Security arrangement:

   (e) Agreement for the sale and purchase of property.

4 Principle

1. A forward contract gives rise to a net gain or loss to the taxpayer if the spot price of the currency on the date the contract is fulfilled is different from the rate specified under the forward contract. That net gain or loss is to be recognised for tax purposes on an accrual basis in two parts—

   (a) The difference between the contract price and the spot price on the date the contract was entered into is spread over the term of the contract using a yield to maturity method;

   (b) At each balance date the change in spot price since the previous balance date (or the date on which the contract was entered into, if later) is brought into income or expenditure.

2. Both parties to a forward contract are holders, and each holder must nominate one of the currencies under the contract as a base currency in terms of which all accrual income or expenditure is to be calculated.

5 Interpretation

1. In this determination, unless the context otherwise requires—

Expression used have the same meanings as in the Act and where a word or expression is given a particular meaning for the purposes of sections 64B to 64M of the Act it shall have the same meaning as in the said sections 64B to 64M.

"The Act" means the Income Tax Act 1976;

"Annual yield to maturity rate", in relation to a person and a forward contract, means the constant annual rate of interest at which the present value of the forward value calculated as at the commencement date of the contract is equal to the spot value as at that date;

"Base currency", in relation to a person and a forward contract, means the currency under the forward contract which is adopted by the person as a reference currency for the purposes of this determination;

"Commencement date" of a forward contract means the date on which the contract was entered into, or the date on which it was acquired, if later;

"Contract forward price", in relation to a forward contract means the price of one currency expressed in terms of the other currency under the contract;

"Currency" includes any commodity;

"Forward value", in relation to a forward contract, means the value expressed in the base currency of the non-base currency, calculated at the contract forward price;

"NZD" means the currency of New Zealand;

"Non-base currency" means the currency under a forward contract that is not the base currency;

"Present value", in relation to a forward contract and a day, means the discounted value on that day of the forward value, calculated in accordance with Method A or Method B of Determination G10: Present Value Calculation Methods (or a method producing substantially similar results), and for this purpose the present value shall be calculated using the annual yield to maturity rate of that contract;

"Spot contract" means a contract for the sale or purchase of a currency for delivery in 2 business days;

"Spot Price" means a price or rate quoted for spot contracts.

"Spot value", in relation to a forward contract and a day, means the value of the amount of the non-base currency, which value is expressed in the base currency and calculated at the spot price on that day.

2. Any reference in this determination to any other determination made by the Commissioner shall be construed as including a reference to any fresh determination made by the Commissioner to vary, rescind, restrict, or extend that determination.

6 Method

1. Subject to subclause (2) of this clause, the income or expenditure in respect of a forward contract and an income year (other than an income year to which section 64F of the Act applies) shall be calculated according to the following formula:

$$(a - b) - (c - d)$$

where—

a is the amount of the present value of the forward contract in relation to the person at the end of the income year;

b is the amount of the present value of the forward contract in relation to the person at the later of the end of the immediately preceding income year, or the commencement date;

c is the spot value of the forward contract in relation to the person at the end of the income year;

d is the spot value of the forward contract at the later of the end of the immediately preceding income year or the commencement date—

and the amount so calculated shall be deemed to be

(a) expenditure incurred if—

(i) the amount is positive and the person is the vendor of the base currency, or

(ii) the amount is negative and the person is the purchaser of the base currency.

(b) income derived, in any other case.

2. Where the base currency adopted by the person in relation to a forward contract and an income year is not New Zealand currency, the amount of the income derived or expenditure incurred by the person in respect of the forward contract shall be the

amount calculated in the base currency pursuant to sub-clause (1) of this clause, converted into NZD as at the end of that income year in accordance with sub-clause (3) of this clause.

3. Where—

(a) An amount at any time is expressed in a currency other than NZD and;

(b) It is necessary to convert the amount to NZD or otherwise to calculate the value of the amount in NZD;

the exchange rate for the purpose of the calculation shall be—

(c) Where the matter is dealt with in a determination made by the Commissioner under section 64E(1) of the Act, the spot price at the time and so determined;

(d) Where the exchange rate is not dealt with in a determination made by the Commissioner under section 64E(1) of the Act and the amount is expressed in a currency for which there is an accessible and active market in NZD, an exchange rate determined in a manner consistent with determinations made by the Commissioner for the purpose of ascertaining the spot price for any currency;

(e) In any other circumstance, a spot price at which an arm's length dealing would be expected to take place at the time.

7 Examples

For convenience in these examples when calculating the base price adjustment, the same buy/sell spot rates have been used at date of delivery. In practice this would not normally be the case.

Example A: Seller of Base Currency; Appreciating Non-Base Currency

(a) A New Zealand corporate borrower enters into a long term forward foreign exchange contract to buy 1 million US dollars (USD) against delivery of New Zealand dollars (NZD) in three years time (This could be the forward leg of a swap, where the other leg is a spot exchange on 30 April 1988 at the market spot rate). The contract was entered into on 30 April 1988 and the corporate has a balance date of 30 June. The contract forward rate is 0.5300 USD to 1 NZD, so settlement will require delivery of NZD 1,886,792.

The corporate chooses NZD as the base currency for this contract.

Suppose that over the term of the contract the spot USD/NZD rates are:

	Spot USD/NSD price	Spot Value in NZD
30 April 1988	0.6350	1,574,803
30 June 1988	0.6200	1,612,903
30 June 1989	0.5940	1,683,502
30 June 1990	0.5750	1,739,130
30 April 1991	0.5570	1,795,322

Using Method A of Determination G10: Present Value Calculation Methods, at yearly intervals, the annual yield to maturity rate is 6.210% p.a., at which rate the present value of NZD 1,886,792 payable on 30 April 1991 is equal to NZD 1,574,803, the spot value on 30 April 1988.

(b) The present values of NZD 1,886,792 at the three subsequent balance dates are as follows:—

	Present Value in NZD	Notes
30 June 1988	1,590,349	(3)
30 June 1989	1,689,110	(2)
30 June 1990	1,794,003	(1)

Notes

(1) Discount by the 304 days from 30 April 1991 to 30 June 1990— 1,886,792/(1 + 0.06210 × 304/365) = 1,794,003

(2) Discount by a further year to 30 June 1989— 1,794,003/(1 + 0.06210) = 1,689,110

(3) And by a further year to 30 June 1988— 1,689,110/(1 + 0.06210) = 1,590,349

The following schedule sets out the calculations. Since the corporate is a vendor of the base currency, positive amounts are expenditure incurred and negative amounts are income derived:—

Income Year ending 30 June	a	b	c	d	Amount = (a – b) – (c – d) in NZD	
1988	1,590,349	1,574,803	1,612,903	1,574,803	–22,554	I
1989	1,689,110	1,590,349	1,683,502	1,612,903	28,162	E
1990	1,794,003	1,689,110	1,739,130	1,683,502	49,265	E

I = Income derived; E = Expenditure incurred

(c) In the 30 June 1991 income year, the Base Price Adjustment given in section 64F is calculated by applying the formula:

$$a - (b + c).$$

where —

a = Consideration paid or payable to the holder (Section 64F(2))
= 1,795,332

b = Acquisition price
= consideration provided by the holder (Section 64BA(1)(d) and (2))
= 1,886,792

c = Income already derived – Expenditure already incurred
= 22,554 – 77,427
= –54,873

Therefore, the Base Price Adjustment = a − (b + c) = NZD − 36,587

and since this is negative, the amount of NZD 36,587 is deemed to be an allowable deduction (section 64F(4)(a)).

Note that in the final 30 June 1991 income year, the formula set out in this determination would have given the same result, since—

a = NZD 1,886,792

b = NZD 1,794,003

c = NZD 1,795,332

d = NZD 1,739,130

whence—

(a − b) − (c − d) = NZD 36,587 which, being a positive amount, would be expenditure incurred.

Example B: Buyer of Base Currency; Appreciating Non-Base Currency

(a) A New Zealand corporate borrower enters into a long term forward foreign exchange contract to sell 1 million US dollars (USD) against purchase of New Zealand dollars (NZD) in three years time. The contract was entered into on 30 April 1988 and the corporate has a balance date of 30 June. The contract forward rate is 0.5300 USD to 1 NZD, so settlement will require purchase of NZD 1,886,792.

The corporate chooses NZD as the base currency for this contract. Suppose that over the term of the contract the spot USD/NZD rates are:

	Spot USD/NSD price	Spot Value in NZD
30 April 1988	0.6350	1,574,803
30 June 1988	0.6200	1,612,903
30 June 1989	0.5940	1,683,502
30 June 1990	0.5750	1,739,130
30 April 1991	0.5570	1,795,332

Using Method A of Determination G10: Present Value Calculation Methods, at yearly intervals, the annual yield to maturity rate is 6.210% pa, at which rate the present value of NZD 1,886,792 payable on 30 April 1991 is equal to NZD 1,574,803, the spot value on 30 April 1988.

(b) The present values of NZD 1,886,792 at the three subsequent balance dates are as follows:—

	Present Value in NZD	Notes
30 June 1988	1,590,349	(3)
30 June 1989	1,689,110	(2)
30 June 1990	1,794,003	(1)

Notes

(1) Discount by the 304 days from 30 April 1991 to 30 June 1990—
1,886,792/(1 + 0.06210 × 304/365) = 1,794,003
(2) Discount by a further year to 30 June 1989—
1,794,003/(1 + 0.06210) = 1,689,110
(3) And by a further year to 30 June 1988—
1,689,110/(1 + 0.06210) = 1,590,349

The following schedule sets out the calculations. Since the corporate is a purchaser of the base currency, positive amounts are income derived and negative amounts are expenditure incurred:—

Income Year ending 30 June	a	b	c	d	Amount = (a – b) – (c – d) in NZD	
1988	1,590,349	1,574,803	1,612,903	1,574,803	–22,554	E
1989	1,689,110	1,590,349	1,683,502	1,612,903	28,162	I
1990	1,794,003	1,689,110	1,739,130	1,683,502	49,265	I

I = Income derived; E = Expenditure incurred

(c) In the 30 June 1991 income year, the Base Price Adjustment given in section 64F is calculated by applying the formula:

$$a - (b + c)$$

where —

a = Consideration paid or payable to the holder (Section 64F(2))
= 1,886,792

b = Acquisition price
= consideration provided by the holder (Section 64BA(1)(d) and (2))
= 1,795,332

c = Income already derived – Expenditure already incurred
= 77,427 – 22,554
= 54,873

Therefore, the Base Price Adjustment = a − (b + c) = NZD 36,587

and since this is positive, the amount of NZD 36,587 is deemed to be income derived (section 64F(4)(a)).

Note that in the final 30 June 1991 income year, the formula set out in this determination would have given the same result, since—

a = NZD 1,886,792

b = NZD 1,794,003

c = NZD 1,795,332

d = NZD 1,739,130

whence—

(a − b) − (c − d) = NZD 36,587 which, being a positive amount, would be income derived.

Example C: Seller of Base Currency; Depreciating Non-Base Currency

(a) A New Zealand corporate borrower enters into a long term forward foreign exchange contract to sell 1 million US dollars (USD) against purchase of New Zealand dollars (NZD) in three years time. The contract was entered into on 30 April 1988 and the corporate has a balance date of 30 June. The contract forward rate is 0.5300 USD to 1 NZD, so settlement will require purchase of NZD 1,886,792.

The corporate chooses USD as the base currency for this contract.

Suppose that over the term of the contract the spot USD/NZD rates are:

	Spot USD/NSD price	Spot Value in NZD
30 April 1988	0.6350	1,198,113
30 June 1988	0.6200	1,169,811
30 June 1989	0.5940	1,120,754
30 June 1990	0.5750	1,084,905
30 April 1991	0.5570	1,050,943

Using Method A of Determination G10: Present Value Calculation Methods, at yearly intervals, the annual yield to maturity rate is −5.847% p.a., at which rate the present value of USD 1,000,000 payable on 30 April 1991 is equal to USD 1,198,113, the spot value on 30 April 1988.

(b) The present values of USD 1,000,000 at the three subsequent balance dates are as follows:—

	Present Value in USD	Notes
30 June 1988	1,185,805	(3)
30 June 1989	1,116,471	(2)
30 June 1990	1,051,191	(1)

Notes

(1) Discount by the 304 days from 30 April 1991 to 30 June 1990—
1,000,000/(1 − 0.05847 × 304/365) = 1,051,191

(2) Discount by a further year to 30 June 1989—
1,051,191/(1 − 0.05847) = 1,116,471

(3) And by a further year to 30 June 1988—
1,116,471/(1 − 0.05847) = 1,185,805

The following schedule sets out the calculations. Since the corporate is vendor of the base currency, positive amounts are expenditure incurred and negative amounts are income derived:—

Income Year ending 30 June	a	b	c	d	Amount = (a – b) – (c – d) in USD	
1988	1,185,805	1,198,113	1,169,811	1,198,113	15,994	E
1989	1,116,471	1,185,805	1,120,754	1,169,811	–20,277	I
1990	1,051,191	1,116,471	1,084,905	1,120,754	–29,431	I

I = Income derived; E = Expenditure incurred

(c) The amounts of income derived or expenditure incurred in each income year have then to be converted to NZD at the spot price at 30 June, as follows:—

Income year ending 30 June	Amounts in USD	Rate at 30 June	Value of in NZD
1988	15,994 E	.6200	25,797 E
1989	20,277 I	.5940	34,136 I
1990	29,431 I	.5750	51,184 I

(d) In the 30 June 1991 income year, the Base Price Adjustment given in section 64F is calculated by applying the formula:

$$a - (b + c)$$

where all amounts are expressed in NZD, and—

a = Consideration paid or payable to the holder (Section 64F(2))
= USD 1,050,943
= NZD 1,886,792

b = Acquisition price
= consideration provided by the holder (Section 64BA(1)(d) and (2))
= USD 1,000,000
= NZD 1,795,332

c = Income already derived – Expenditure already incurred
= NZD 85,320 – NZD 25,797
= NZD 59,523

Therefore, the Base Price Adjustment = a – (b + c)
= NZD 31,937

and since this is positive, the amount of NZD 31,937 is deemed to be income derived (section 64F(4)(a)).

Example D: Buyer of Base Currency; Depreciating Non-Base Currency

(a) A New Zealand corporate borrower enters into a long term forward foreign exchange contract to buy 1 million US dollars (USD) against delivery of New Zealand dollars (NZD) in three years time. The contract was entered into on 30 April 1988 and the corporate has a balance date of 30 June. The contract forward rate is 0.5300 USD to 1 NZD, so settlement will require delivery of NZD 1,886,792.

The corporate chooses USD as the base currency for this contract.

Suppose that over the term of the contract the spot USD/NZD rates are:

	Spot USD/NZD price	Spot Value in USD
30 April 1988	0.6350	1,198,113
30 June 1988	0.6200	1,169,811
30 June 1989	0.5940	1,120,754
30 June 1990	0.5750	1,084,905
30 April 1991	0.5570	1,050,943

Using Method A of Determination G10: Present Value Calculation Methods, at yearly intervals, the annual yield to maturity rate is −5.847% p.a., at which rate the present value of USD 1,000,000 payable on 30 April 1991 is equal to USD 1,198,113, the spot value on 30 April 1988.

(b) The present values of USD 1,000,000 at the three subsequent balance dates are as follows:—

	Present Value in USD	Notes
30 June 1988	1,185,805	(3)
30 June 1989	1,116,471	(2)
30 June 1990	1,051,191	(1)

Notes

(1) Discount by the 304 days from 30 April 1991 to 30 June 1990—
1,000,000/(1 − 0.05847 × 304/365) = 1,051,191

(2) Discount by a further year to 30 June 1989—
1,051,191/(1 − 0.05847) = 1,116,471

(3) And by a further year to 30 June 1988—
1,116,471/(1 − 0.05847) = 1,185,805

The following schedule sets out the calculations. Since the corporate is purchaser of the base currency, positive amounts are income derived and negative amounts are expenditure incurred:—

Income Year ending 30 June	a	b	c	d	Amount = (a – b) – (c – d) in USD	
1988	1,185,805	1,198,113	1,169,811	1,198,113	15,994	I
1989	1,116,471	1,185,805	1,120,754	1,169,811	–20,227	E
1990	1,051,191	1,116,471	1,084,905	1,120,754	–29,431	E

I = Income derived; E = Expenditure incurred

(c) The amounts of income derived or expenditure incurred in each income year are then converted to NZD at the spot price at 30 June, as follows—

Income Year ending 30 June	Amounts in USD	Rate at 30 June	Value of CTBV in NZD
1988	15,994 I	0.6200	25,797 I
1989	20,277 E	0.5940	34,136 E
1990	29,431 E	0.5750	51,184 E

I = Income derived; E = Expenditure incurred

(d) In the 30 June 1991 income year, the Base Price Adjustment given in section 64F is calculated by applying the formula

$$a - (b + c)$$

where all amounts are expressed in NZD, and—

a = Consideration paid or payable to the holder (Section 64F(2))
= USD 1,000,000
= NZD 1,798,332

b = Acquisition price
= consideration provided by the holder (Section 64BA(1)(d) and (2))
= USD 1,050,943
= NZD 1,886,792

c = Income already derived – Expenditure already incurred
= NZD 25,797 – NZD 85,320
= NZD –59,523

Therefore, the Base Price Adjustment—

= a − (b + c)

= NZD 1,795,332 − (1,886,792 − 59,523)

= NZD −31,937

and since this is negative, the amount of NZD 31,937 is deemed to be an allowable deduction (section 64F(4)(a)).

About this document

General determinations set out the Commissioner's view on how the financial arrangements rules apply to a specific type of financial arrangement. All general determinations are binding on the Commissioner and some are also binding on taxpayers.